

North Dakota REV-E-NEWS



Pam Sharp, Director

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MESSAGE FROM THE DIRECTOR

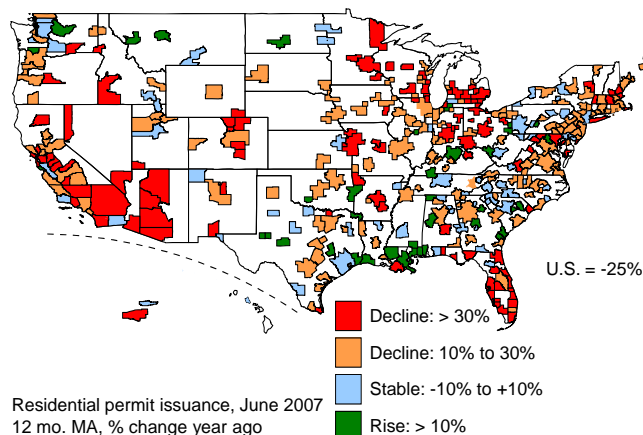
The first month of the 2007-09 biennium has given encouraging signs that national economic concerns regarding mortgage and housing markets have not hampered economic growth in North Dakota. The month of July showed strong growth in the state's largest tax types: sales and use taxes and individual income taxes.

Nationally, the downturn in the housing and mortgage markets have slowed national economic growth and placed many regional economies on the brink of recession. According to Moody's Economy.com, the state's economic forecasting consultant, "the housing market continues to exercise a drag on the nation's output growth, with no sign that conditions are about to turn around." Although they consider the risk of recession to be low, "recession risks are rising as the still-weakening housing and mortgage credit markets begin to have a broader economic impact." As mortgage credit is restricted, "home sales may stay low through all of next year and perhaps into 2009 in overbuilt and overpriced single-family markets..."

Moody's offers a dismal forecast for residential construction: "Builders have little incentive to step up the pace of construction, given the overhang of inventories and the difficulty some of their customers are encountering in obtaining mortgages." This bleak outlook is causing a significant drop in the number of residential building permits being issued, as shown on the map below, published by Moody's in the August 2007 issue of *Précis MACRO*. Most major metropolitan

areas indicate decreases in residential construction activity of at least 10 percent and many report declines of over 30 percent from one year ago. Note that the three largest metropolitan areas in North Dakota are showing either stable or increasing residential construction activity, the only metropolitan areas to indicate healthy construction activity in the neighboring states of Wyoming, South Dakota, Nebraska, Minnesota, Wisconsin, and Iowa. This is an encouraging sign that North Dakota's economy will continue to grow and expand, despite whatever economic storms lie on the horizon for the national economy.

Sharp Housing Downturn in West, Florida, Industrial Midwest



OIL ACTIVITY

The price of North Dakota crude continues to rise. April prices averaged \$56 per barrel, May prices \$57 per barrel, and June prices \$61 per barrel. The current price is over \$66 per barrel. Production continues to grow and increased in June to over 121,000 barrels per day. May production averaged 120,500 barrels per day and April production averaged 118,800 barrels per day. Drilling permit activity declined in June with 31 permits being issued compared to 50 in May. The current rig count is 43 rigs, 3 more than were operating in the state one year ago.



Comments or Questions?

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STATEMENT OF GENERAL FUND REVENUES AND FORECASTS
Compared to the Legislative Forecast
2007-09 BIENNIUM
July 2007

REVENUES AND TRANSFERS	FISCAL MONTH				BIENNIUM TO DATE			
	April 2007 <u>Leg. Forecast</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent</u>	April 2007 <u>Leg. Forecast</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent</u>
Sales Tax	33,925,000	39,740,478	5,815,478	17.1%	33,925,000	39,740,478	5,815,478	17.1%
Motor Vehicle Excise Tax	4,604,000	5,475,955	871,955	18.9%	4,604,000	5,475,955	871,955	18.9%
Individual Income Tax	34,363,000	38,744,480	4,381,480	12.8%	34,363,000	38,744,480	4,381,480	12.8%
Corporate Income Tax		936,022	936,022	100.0%		936,022	936,022	100.0%
Insurance Premium Tax		2,772	2,772	100.0%		2,772	2,772	100.0%
Financial Institutions Tax		140,614	140,614	100.0%		140,614	140,614	100.0%
Oil & Gas Production Tax	6,990,000	10,168,579	3,178,579	45.5%	6,990,000	10,168,579	3,178,579	45.5%
Oil Extraction Tax	2,960,000	4,160,728	1,200,728	40.6%	2,960,000	4,160,728	1,200,728	40.6%
Gaming Tax	713,440	566,844	(146,596)	-20.5%	713,440	566,844	(146,596)	-20.5%
Lottery								
Cigarette & Tobacco Tax	2,117,000	2,024,892	(92,108)	-4.4%	2,117,000	2,024,892	(92,108)	-4.4%
Wholesale Liquor Tax	595,000	612,919	17,919	3.0%	595,000	612,919	17,919	3.0%
Coal Conversion Tax	2,117,000	2,056,977	(60,023)	-2.8%	2,117,000	2,056,977	(60,023)	-2.8%
Mineral Leasing Fees	1,100,000	516,637	(583,363)	-53.0%	1,100,000	516,637	(583,363)	-53.0%
Departmental Collections	1,245,000	1,052,861	(192,139)	-15.4%	1,245,000	1,052,861	(192,139)	-15.4%
Interest Income	585,000	430,940	(154,060)	-26.3%	585,000	430,940	(154,060)	-26.3%
Bank of North Dakota-Transfer								
State Mill & Elevator-Transfer								
Oil tax trust fund-Transfer								
Other Transfers	159,257	159,939	682	0.4%	159,257	159,939	682	0.4%
Total Revenues and Transfers	91,473,697	106,791,637	15,317,940	16.7%	91,473,697	106,791,637	15,317,940	16.7%

STATEMENT OF GENERAL FUND REVENUES AND FORECASTS
Compared to the Previous Biennium Revenues
2007-09 BIENNIUM
July 2007

REVENUES AND TRANSFERS	FISCAL MONTH				BIENNIUM TO DATE			
	July 2005	July 2007	Variance	Percent	2005-07	2007-09	Variance	Percent
Sales Tax	24,897,233	39,740,478	14,843,245	59.6%	24,897,233	39,740,478	14,843,245	59.6%
Motor Vehicle Excise Tax	5,665,126	5,475,955	(189,171)	-3.3%	5,665,126	5,475,955	(189,171)	-3.3%
Individual Income Tax	16,869,326	38,744,480	21,875,154	129.7%	16,869,326	38,744,480	21,875,154	129.7%
Corporate Income Tax	103,346	936,022	832,676	805.7%	103,346	936,022	832,676	805.7%
Insurance Premium Tax		2,772	2,772	100.0%		2,772	2,772	100.0%
Financial Institutions Tax	453	140,614	140,161	100.0%	453	140,614	140,161	100.0%
Oil & Gas Production Tax	6,204,778	10,168,579	3,963,801	63.9%	6,204,778	10,168,579	3,963,801	63.9%
Oil Extraction Tax	2,814,087	4,160,728	1,346,641	47.9%	2,814,087	4,160,728	1,346,641	47.9%
Gaming Tax	(3,346)	566,844	570,191	100.0%	(3,346)	566,844	570,191	100.0%
Lottery								
Cigarette & Tobacco Tax	1,866,600	2,024,892	158,292	8.5%	1,866,600	2,024,892	158,292	8.5%
Wholesale Liquor Tax	615,562	612,919	(2,644)	-0.4%	615,562	612,919	(2,644)	-0.4%
Coal Conversion Tax	1,971,840	2,056,977	85,137	4.3%	1,971,840	2,056,977	85,137	4.3%
Mineral Leasing Fees	785,850	516,637	(269,213)	-34.3%	785,850	516,637	(269,213)	-34.3%
Departmental Collections	1,002,612	1,052,861	50,248	5.0%	1,002,612	1,052,861	50,248	5.0%
Interest Income	324,542	430,940	106,399	32.8%	324,542	430,940	106,399	32.8%
Bank of North Dakota-Transfer								
State Mill & Elevator-Transfer								
Oil Tax Trust Fund-Transfer								
Other Transfers	177,500	159,939	(17,561)	-9.9%	177,500	159,939	(17,561)	-9.9%
Total Revenues and Transfers	63,295,508	106,791,637	43,496,129	68.7%	63,295,508	106,791,637	43,496,129	68.7%

Revenue Variances

The new biennium has taken off to a good start with July revenues 16.7% higher than anticipated in the recent 2007 legislative forecast. Revenue collections for the month were \$15.3 million higher than the legislative forecast. Notable variances for the month are as follows:

- **Sales tax** collections exceeded the forecast by \$5.8 million, or 17.1 percent. Compared to the same month two years ago, July 2007 collections were \$14.8 million higher.
- **Motor vehicle excise tax** collections exceeded projections by nearly \$900,000, or 18.9 percent. This is an encouraging sign after the 2005-07 biennium during which motor vehicle excise tax collections continually fell short of projections. This was assumed to be a result of high fuel prices and consumer demand for smaller, more fuel efficient vehicles, many of which are lower priced.
- **Individual income tax** collections exceeded projections by \$4.4 million, or 12.8 percent.
- **Corporate income tax** collections exceeded the forecast by \$936,000. The forecast showed anticipated general fund collections of \$0 due to the fact that collections during the first three months of the biennium are typically deposited into the refund reserve account rather than the general fund. However, because actual collections were higher than anticipated, excess collections were deposited in the general fund.
- **Oil and gas tax** collections for the month were \$14.4 million, \$4.4 million more than anticipated. The forecast assumed a July 2007 price of \$51 per barrel and production of 115,000 barrels per day. The current price is over \$66 per barrel and June production averaged over 121,000 barrels per day.